

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

| | | |
|---|---|---------|
| Wisconsin Energy Corporation, Integrys Energy |) | |
| Group, Inc., Peoples Energy, LLC, The Peoples Gas |) | |
| Light and Coke Company, North Shore Gas Company |) | |
| ATC Management, Inc., and American Transmission |) | |
| Company, LLC |) | |
| |) | 14-0496 |
| Application pursuant to Section 7-204 of the Public |) | |
| Utilities Act for authority to engage in a |) | |
| Reorganization, to enter into agreements with |) | |
| affiliated interests pursuant to Section 7-101, and for |) | |
| such other approvals as may be required under the |) | |
| Public Utilities Act to effectuate the Reorganization. |) | |

Rebuttal Testimony of

DAVID D. GIESLER

Senior Project Manager
Integrys Business Support, LLC

On Behalf of
Integrys Energy Group, Inc.

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is David D. Giesler. My business address is 700 North Adams Street, Green
5 Bay, Wisconsin 54307.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Integrys Business Support, LLC. I am a Senior Project Manager.

8 **Q. What are your duties as a Senior Project Manager?**

9 A. I am responsible for project planning, execution, control, and close out for The Peoples
10 Gas Light and Coke Company's ("Peoples Gas") Accelerated Main Replacement Project
11 ("AMRP").

12 **Q. What is your educational background?**

13 A. I graduated from Concordia University Wisconsin with a Bachelor's Degree in
14 Management and Communication. I also received a Masters Certificate in Advanced
15 Project Management from the University of Wisconsin, Madison.

16 **Q. What is your professional background?**

17 A. I have worked for Integrys Energy Group, Inc. and its utility subsidiaries for over 23
18 years and have held many positions within Design and Construction, Gas Operations, and
19 Project Management departments, each with increasing responsibilities leading up to my
20 existing Senior Project Manager Position for the AMRP project.

21 **B. Purposes of Rebuttal Testimony**

22 **Q. What are the purposes of your rebuttal testimony in this proceeding?**

23 A. The purposes of my rebuttal testimony are to respond to recommendations related to
24 Peoples Gas' implementation of its AMRP¹.

25 **C. Summary of Conclusions**

26 **Q. Please summarize the conclusions of your rebuttal testimony.**

27 A. The conclusions of my rebuttal testimony are that: (1) Peoples Gas has action plans in
28 place to implement recommendations based on a recent PricewaterhouseCoopers'
29 assessment; (2) Peoples Gas' AMRP planning process properly takes risk ranking
30 considerations into account and the pace of work is cost effective; (3) the Commission
31 and its Staff receive or will receive a substantial amount of information about the AMRP
32 and some of the items that City/CUB proposed that the Commission track and monitor
33 would not provide useful information or are adequately covered by existing reporting
34 requirements; and (4) Peoples Gas is open to discussing improving coordination and
35 communication with the City but questions if it would be productive for the Commission
36 to dictate specific documents and information that Peoples Gas must deliver to the City.

37 **Q. In general, do the Joint Applicants agree with the claims and characterization made**
38 **by Mr. Cheaks and Mr. Coppola as to Peoples Gas' management and operation of**
39 **the AMRP?**

40 A. No. City/Cub witness Mr. Cheaks and AG witness Mr. Coppola each provides his
41 opinions concerning Peoples Gas' management and operation of the AMRP. The Joint

¹ Direct Testimony of Illinois Commerce Commission ("Staff") witness Eric Lounsberry (Staff Ex. 2.0); Direct Testimony of Illinois Attorney General ("AG") witness Sebastian Coppola (AG Ex. 2.0); and Direct Testimony of City of Chicago/Citizens Utility Board ("City/CUB") witness William Cheaks Junior (City/CUB Ex. 3.0).

Applicants strongly disagree with Mr. Cheaks' and Mr. Coppola's characterizations of Peoples Gas' management and operation of the AMRP, as well as their specific anecdotes. Although I am not an attorney, I understand that each of these opinions are outside the scope of this proceeding because they concern past actions or current operations by Peoples Gas that are unrelated to the proposed Reorganization at issue in this proceeding. The focus of this proceeding is for the Commission to determine whether the proposed Reorganization meets the statutory requirements for approval, *i.e.*, determining whether the proposed Reorganization will result in any adverse impact on the Peoples Gas' and North Shore Gas Companies' customers.

We at Peoples Gas certainly take any complaints regarding our performance very seriously. As I state later on in my testimony, Peoples Gas works and communicates with the City of Chicago and the Chicago Department of Transportation ("CDOT") regularly and through established working groups and forums to facilitate planning and coordination. We will certainly address Mr. Cheeks' and Mr. Coppola's opinions and concerns through those established forums. Accordingly, while the Joint Applicants address the conditions proposed by Mr. Cheaks and Mr. Coppola with respect to the AMRP, the Joint Applicants' decision not to provide a detailed response to their specific claims does not mean that the Joint Applicants agree that they are well-founded or otherwise acquiesce to those claims.

II. PRICEWATERHOUSECOOPERS REPORTS

Q. Staff witness Mr. Lounsberry recommends that the Joint Applicants address various PricewaterhouseCoopers ("PwC") recommendations (Staff Ex. 2.0, 25:606 - 26:615). What are the PwC reports that Mr. Lounsberry discusses?

65 A. Peoples Gas commenced its AMRP in 2011. At that time, Rider ICR was in effect as a
66 cost recovery mechanism for AMRP. That rider included audit requirements. In
67 anticipation of beginning the AMRP and preparing to meet the audit requirements.
68 Peoples Gas requested that Integrys' Internal Audit Services conduct a review of the
69 AMRP process and governance, and Internal Audit Services engaged PwC for this task.

70 **Q. What is Peoples Gas' response to the information that Mr. Lounsberry requested?**

71 A. While Peoples Gas did not create the types of action plans that would be responsive to
72 Mr. Lounsberry's request for the two PwC reviews he referenced, a recent AMRP
73 assessment, also prepared by PwC, has this sort of documentation. In other words, as
74 with other Integrys audits, it has observations, recommendations, management action
75 plans, a process owner assigned to each plan, and a completion date. JA Ex. 10.1 is a
76 copy of this report, and it provides the type of information sought by Mr. Lounsberry.

77 **III. AMRP IMPLEMENTATION**

78 **Q. AG witness Mr. Coppola recommended that the Commission condition approval of**
79 **the Reorganization on Wisconsin Energy Corporation scaling the AMRP to "a level**
80 **of cast iron/ductile iron main replacement and related infrastructure upgrades that**
81 **is manageable, targets high priority, high risk segments first, [is] cost effective, and**
82 **minimizes the impact on customer rates" (AG Ex. 2.0, 34:685-688). Do you have**
83 **concerns with this proposal?**

84 A. Yes. Despite the stated goal that the approach be "cost effective," this recommendation
85 could introduce inefficiencies in the project and, consequently, increase customer costs.

86 **Q. How could the recommendation introduce inefficiencies?**

87 A. Peoples Gas' AMRP planning combines the need to address high priority facilities
88 promptly with a "neighborhood" or "zonal" approach, which I describe below, that
89 enhances project efficiency. The primary focus is to improve the safety and reliability of
90 the natural gas distribution and transmission systems. However, Mr. Coppola's
91 recommendation would focus only on "high risk segments" without addressing the many
92 other factors that contribute to AMRP planning. Addressing replacement solely based on
93 risk factors would have Peoples Gas moving from place-to-place in the City in a way that
94 would likely have it returning to the same zones or neighborhoods repeatedly and
95 replacing only a portion of the mains in that area.

96 **Q. How does the AMRP planning address what Mr. Coppola called "high risk**
97 **segments" (AG Ex. 2.0, 34:687-688)?**

98 A. Peoples Gas developed a Main Ranking System to identify and prioritize gas main
99 segments as replacement candidates. Peoples Gas evaluates each segment based on its
100 maintenance history. Criteria it takes into account include breaks, crack at taps, pipe wall
101 thickness based on pipe coupons, visual observation, incidence of leak and other repairs.
102 The result of this evaluation is a value assigned to each segment known as the Main
103 Ranking Index ("MRI"). The MRI value is rounded to the nearest quarter point, (*i.e.* the
104 Uniform Main Rank Index ("UMRI")). All segments that have accumulated a UMRI
105 rating greater than 6.0 are placed on a schedule to be retired within one year. Also,
106 segments that are adjacent to a school, hospital, or nursing home would be replaced
107 within one year of reaching or exceeding a UMRI of 5.0. Segments with a UMRI value
108 greater than 3.0 are viewed as possible replacement candidates when performing work on

adjacent segments and when evaluating the extent of Public and System Improvement projects. In these ways, risk ranking is part of AMRP planning.

Q. What is the overall approach to AMRP planning?

A. The AMRP investment is defined in a five-year construction plan (“Five-Year Plan”), and Joint Applicants provided the Five-Year Plan, revised in May 2013, in response to an AG data request (AG 6.13). Going forward, the Five-Year Plan will be updated on an annual basis and determine in which areas of the City of Chicago Peoples Gas will schedule work over a rolling 5-year time period. The methodology used in the Five-Year Plan is referred to as the neighborhood-based zonal approach (“Zonal Approach”).

Q. What is the Zonal Approach?

A. The Zonal Approach, also referred to as the neighborhood approach, divides the City into 228 areas. System attributes in each of the 228 areas are identified to help target areas for replacement. The attributes include the age of the main, maintenance history of the main, number of services with inside meters attached to the main, ductile iron medium pressure main and small diameter cast iron main. A ranking methodology is then applied and a relative priority is assigned to each area with the ranking of 1 being assigned to the area in the best condition and 228 being assigned to the area in the worst condition. This provides an initial order for replacement. Consideration is then given to external factors to appropriately modify the order of replacement. These factors include minimizing the construction impacts to neighborhoods and customers, coordinating with governmental public improvement projects, and focusing available resources in smaller areas within each district to improve efficiencies.

131 **Q. Can plans change?**

132 A. Of course. As with any plan, changes may occur during the execution. In addition to
133 factors affecting the safe operation of the distribution system, the Five-Year Plan works to
134 leverage governmental public improvement programs when possible in order to achieve
135 the goals of AMRP. Going forward, the Five-Year Plan will be updated every year and
136 newly proposed governmental public improvement projects are reviewed for synergies
137 that would help lower costs and minimize disruptions to businesses and residents. The
138 City has undertaken a major water and sewer upgrade project. This project is placing a
139 larger capital burden on the operators of all other buried infrastructure. This is especially
140 true for Peoples Gas since the gas, water and sewer infrastructure are installed in
141 relatively close proximity. These governmental public improvement projects are taking a
142 growing percentage of Peoples Gas' total capital investment. Uncertainty about the
143 locations and timing of future City water and sewer projects will affect Peoples Gas'
144 planned investments for AMRP.

145 **Q. Mr. Cheaks proposed a condition to require a weekly, block-by-block schedule of**
146 **construction activities be given to CDOT and the Commission, provided on a five-**
147 **year, annual, and monthly basis (City/CUB Ex. 3.0, 4:54-56)? Please comment on**
148 **providing the Commission this information.**

149 A. As Joint Applicants witness Mr. Schott explained (Joint Applicants Ex. 9.0), existing
150 reporting requirements result in the Commission receiving large amounts of AMRP
151 information. That information is both about completed work and planned work.
152 Mr. Cheaks' recommendation to provide even more information to the Commission
153 would largely be redundant with existing reporting requirements or of questionable value

154 to the Commission. The particular recommendation of weekly block-by-block schedules
155 is not part of an existing requirement, but, in the over three years AMRP implementation
156 has been in progress, the Commission has not requested such detailed information.
157 Moreover, it is not apparent why the Commission's monitoring and oversight roles would
158 benefit from receiving planning information at this level of detail. Unlike the City, the
159 Commission has no day-to-day role in facilitating project implementation. For example,
160 the Commission does not issue permits or have requirements associated with paving and
161 restoration. Block-by-block planning information would do little to apprise the
162 Commission of the status of the AMRP and nothing to inform the Commission about
163 costs, which is a substantial element of Commission oversight.

164 **Q. Please comment on Mr. Cheaks' recommendation as it pertains to CDOT.**

165 A. Peoples Gas and the City meet regularly and exchange information about the AMRP. For
166 example, a weekly meeting with CDOT occurs, primarily to address restoration and
167 permitting issues but the meetings are also a forum to discuss other AMRP matters.
168 Peoples Gas routinely works with CDOT's Office of Underground Coordination. Peoples
169 Gas regularly provides planning data to the City for many reasons, including as part of
170 efforts to coordinate projects with the City. If additional or different forms of
171 communications with CDOT and other City departments would facilitate planning,
172 Peoples Gas is open to discussing these matters. I also note that part of the review that
173 the Liberty Consulting Group is conducting at the Commission's direction concerns
174 coordination and planning and may make recommendations in these areas. As Joint
175 Applicants witness Allen Leverett stated, Peoples Gas will review all of Liberty's
176 recommendations and implement those that are possible, practical, and reasonable.

Peoples Gas questions if it would be productive for the Commission, in this Reorganization proceeding, to impose conditions about specific documents that Peoples Gas must provide to the City.

Q. What is the Joint Applicants' position with respect to Mr. Cheaks' proposed condition to require that any Field Order Authorizations or Change Orders be communicated within 24 hours to CDOT (City/CUB Ex. 3.0, 4:57-58)?

A. The proposal is not feasible. Field Order Authorizations (FOAs) are used to address and comply with corporate governance requirements when the scope of work in the field deviates from the bid documents. FOAs are usually created using a rough order of magnitude cost and scope of work and can take anywhere from one day to several weeks to receive approval depending on the circumstances. The contractor may choose to proceed without getting sign-off from the company, but it will assume the cost risk of not getting approval. For change orders, the approval process may be much longer, but this process has not interfered with work. In both cases, the approval process follows Integrys' corporate governance. For example, the dollar amount associated with a change determines who can approve the change. Based on the above process, it is not feasible to communicate FOAs and Change Orders within 24 hours.

Q. City/CUB witness Mr. Cheaks listed six items that he recommends the Commission monitor (City/CUB Ex. 3.0, 50:987-995). Please comment.

A. Joint Applicants witness Mr. Schott (Joint Applicants Ex. 9.0) addresses existing reporting requirements and the substantial amounts of AMRP information that Peoples Gas reports and files. I address how Peoples Gas tracks and manages these items.

199 Mr. Cheaks' first item is: "Number of instances where [Peoples Gas] fails to
200 adhere to the timeframes permitted in all permits issued for AMRP (being on schedule
201 more often)." Peoples Gas tracks permit extensions and citations associated with permits.
202 However, it does not generally track the number of instances where it did not adhere to
203 AMRP permit timeframes. Peoples Gas has not found a business need for tracking this
204 information.

205 Mr. Cheaks' second item is: "Dollar amounts for approved capital and O&M
206 spend for AMRP (being on budget more often)." Peoples Gas tracks various budget
207 metrics. Management is regularly apprised of actual capital expenditures (both AMRP
208 and other projects) relative to budget. The reasons for significant variances are also
209 addressed. For example, CDOT regulation changes caused variances in some years (and
210 change orders) because the timing of the issuance of new requirements was such that the
211 new rules could not be factored into budgets and into contractor bids. Mr. Cheaks'
212 recommendation was both about AMRP capital and operations and maintenance
213 ("O&M") expenses, but I note that AMRP O&M spending is relatively small.

214 Mr. Cheaks' third item is: "Dollar amounts for Change Orders associated with
215 AMRP." All change orders go through the same corporate approval process. The dollar
216 amount of the change order dictates the level in the corporation at which approval is
217 needed. All change orders are reviewed by the project manager. Peoples Gas does not,
218 however, track cumulative dollar amounts of change orders.

219 Mr. Cheaks' fourth item is: "Dollar amounts for Management Reserve associated
220 with AMRP." Integrys is implementing a system (called "Unifier") that will address
221 contingencies by project and by line item. That system is expected to be in place in the

222 fourth quarter of 2015. In the interim, Peoples Gas will begin using a more sophisticated
223 cost spreadsheet to track this information.

224 Mr. Cheaks' fifth item is: "Number of Days needed to close Field Order
225 Authorizations and Change Orders for AMRP projects." I discuss FOAs and change
226 order above. Additionally, Peoples Gas does not have a business reason to track the
227 number of days needed to close field order authorizations and change orders. These
228 processes do not adversely affect the pace of AMRP work. Field order authorizations are
229 often processed quickly. For example, if a contractor needs to slightly move the line of
230 lay, the contractor will submit a field order authorization to document the change. The
231 contractor may choose to proceed without getting sign-off from the company, but it will
232 assume the cost risk of not getting approval. However, the review and approval (or
233 disapproval in some cases) is often prompt, sometimes on the same day, but can take
234 several weeks. For change orders, the approval process may be much longer, but this
235 process has not interfered with work.

236 Mr. Cheaks' sixth item is: "Number of AMRP contractor hits on all facilities."
237 Peoples Gas tracks all hits on its facilities, irrespective of who is responsible or whether
238 the hit is AMRP-related. AMRP contractor hits on other facilities are tracked in a non-
239 conformance report that addresses root cause of the hit and corrective action.

240 **Q. Does this conclude your rebuttal testimony?**

241 **A.** Yes.